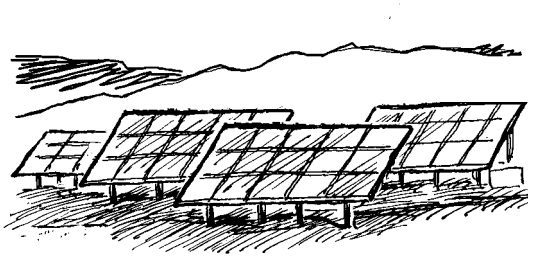
Public Benefits Funds



EPA's State and Local Climate Change Program helps build awareness, expertise, and capacity to address the risk of climate change at the state and local levels. The program provides guidance and technical information to help state and local agencies prepare inventories of greenhouse gas emissions, develop action plans to reduce emissions, and educate their constituents. By emphasizing the many economic and environmental benefits of greenhouse gas reductions, the program encourages state and local decisionmakers to implement voluntary measures to reduce their greenhouse gas emissions.

Funds for Renewable Energy and Energy Efficiency

Public benefits funds (PBFs), also known as "system benefits funds," can be used by states to ensure that energy efficiency, renewable energy, and low-income energy services such as weatherization and universal access continue to be supported after electricity restructuring takes place.

Public benefits funds can play an important role in state efforts to reduce greenhouse gas emissions and improve air quality, because they are an efficient way to maintain or expand programs that improve energy efficiency and promote renewable energy. PBFs also can help reduce energy costs to low-income tenants and homeowners through energy-efficiency upgrades, bill payment assistance, and other services.

Under a PBF system, a public or private agency collects a small surcharge on electricity bills and uses the proceeds to fund services that are in the public interest. The services and technologies supported by PBFs are those that may receive reduced support in a competitive electricity environment.

Utilities traditionally have raised money for public benefit services through surcharges on electricity bills. In a competitive market after electricity restructuring, utilities would no longer be required to assess public benefit surcharges or perform public benefit services. Instead, states may create PBFs that levy comparable surcharges but direct them into a fund administered by a state agency or an independent private organization.

Public benefits funds administrators may allow a wide range of service providers—such as energy services companies, local development agencies, and independent contractors, as well as utilities—to compete for these funds through a bidding process. They also may set aside funds to support emerging technologies that may not yet be cost-effective.

Public benefits funds surcharges, referred to as "system benefits charges," "universal service charges," or "public goods charges," typically are levied on all electricity customers and cannot be avoided. The charges also do not affect competition among electricity providers since they all must levy the surcharge.

The charges are most often assessed as a fee per kilowatt-hour, usually in the range of $0.0005 to $0.003, although in some states consumers pay a flat fee regardless of the amount of electricity they use each month.

BENEFITS OF PUBLIC BENEFITS FUNDS

- Reduced emissions of greenhouse gases and air pollution.
- Significant environmental and social benefits at low cost to individual ratepayers.
- Competitively neutral (do not influence consumer choice of electricity providers).
- Support for emerging technologies.
- Support of a wide variety of technologies and programs.
- Affordable energy bills for low-income households.

PBFs generally do not increase the net cost of electricity to consumers, because they merely replace the existing public benefits surcharges levied by utilities in traditional regulated electricity environments.

The Federal Role

The administration's proposed Comprehensive Electricity Restructuring Plan, which was sent to Congress in April 1999, includes a nationwide public benefits matching fund that would encourage and support PBFs at the state level. The $3 billion fund would match money raised by state public benefits funds for low-income assistance, energy efficiency programs, consumer education, and the development and demonstration of emerging energy technologies, particularly renewable energy. The PBF would be funded through a generation or transmission fee on all electricity, capped at one-tenth of 1 cent (one mill) per kilowatt-hour. The fund would be overseen by a board of federal and state officials, and would be structured to give states flexibility to allocate funding in ways that are tailored to each state's needs. States could apply for the matching funds, which would be optional and not mandatory, to augment funds raised by their own system benefits charges.

Several electricity restructuring bills also have been proposed in Congress. At least two of the proposed bills would create public benefits funds similar to the one proposed by the administration.

State Experiences with Public Benefits Funds

As of June 1999, 10 states had passed electricity restructuring laws that include public benefits funds. These states are California, Connecticut, Illinois, Massachusetts, Montana, New Jersey, New Mexico, New York, Pennsylvania, and Rhode Island.

By 2010, state public benefits funds will have collected a total of $1.6 billion to support renewable energy. These funds are likely to help underwrite the development of an estimated 980 megawatts of new renewable energy, with more than half of this development occurring in California. This is enough power to meet the entire electricity needs of 700,000 homes and reduce greenhouse gases by 860,000 metric tons, equivalent to taking 500,000 cars off the road. State public benefits funds currently in effect also will collect more than $700 million annually to support energy efficiency.

Rhode Island

Rhode Island's public benefits fund was launched on January 1, 1997. Funds are raised through a charge of 2.3 mills ($0.0023) per kilowatt-hour delivered, amounting to about $1.20 on the average customer's monthly electric bill. The charge generates an average of $11 to $12 million per year. The money is pooled and administered by a board consisting of the state's electric companies, the Rhode Island Division of Public Utilities, the Conservation Law Foundation, and Tech RI (a consortium of large electricity users in Rhode Island).

Projects are selected for funding based largely on their commercial viability. Projects supported to date include residential photovoltaic (PV) systems, a commercial PV project, a PV outdoor lighting demonstration project, a commercial wind generator, a fuel cell project at a hospital, and a landfill gas-to-energy project.

The fund is initially authorized to operate for five years, after which the Public Utilities Commission may reauthorize it, reauthorize it with different fee rates, or eliminate it.

California

California's Renewable Resource Trust Fund is collecting $540 million from the state's investor-owned utilities from January 1, 1998, to January 1, 2002, to support existing, new, and emerging renewable technologies. Municipal utilities and individual customers also may contribute to the fund.

The fund is divided among four accounts. The Existing Renewable Resources Account totals $243 million, with funds distributed through a production incentive (capped at 1.5 cents per kilowatt-hour). Some monies from the Existing Renewables Account may be shifted over time to increasingly competitive technologies. The New Technologies Account totals $162 million and also will be distributed through production incentive payments. The Emerging Technologies Account ($54 million) provides rebates, buy-downs, or equivalent incentives for emerging renewables. The Consumer-Side Account ($81 million) provides customer rebates for the purchase of renewable energy and funds an education program to help develop a consumer market for renewable energy.

California also is collecting $275 million annually from the state's investor-owned utilities for energy efficiency projects. The program is administered by the California Board for Energy Efficiency.

For More Information

The U.S. Department of Energy's (DOE) *State Energy Alternatives* home page provides information on state incentives for renewable energy.

Website: *http://www.eren.doe.gov/state_energy/*

DOE's *Office of Power Technologies*, in the Office of Energy Efficiency and Renewable Energy, tracks electric utility restructuring developments across the country.

Website: *http://www.eren.doe.gov/electricity_restructuring/*

The *American Council for an Energy-Efficient Economy* maintains an online summary table of state public benefit programs and electric utility restructuring.

Website: *http://www.aceee.org/briefs/mktabl.htm*

The Union of Concerned Scientists' report, *Powerful Solutions: Seven Ways to Switch America to Renewable Electricity,* includes information on public benefits funds.

Website: *http://www.ucsusa.org/energy/*

EPA's *State and Local Climate Change Program* helps states and communities reduce emissions of greenhouse gases in a cost-effective manner while they address other environmental problems.

Website: *http://www.epa.gov/globalwarming/ and click on "Public Decision Makers" under the "Visitors Center."*